

**REPORT OF THE AUDIT OF THE  
MARSHALL COUNTY  
FORMER SHERIFF'S SETTLEMENT - 2006 TAXES**

**For The Period  
April 29, 2006 Through November 30, 2006**



**CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS  
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## **EXECUTIVE SUMMARY**

### **AUDIT EXAMINATION OF THE MARSHALL COUNTY FORMER SHERIFF'S SETTLEMENT - 2006 TAXES**

**For The Period  
April 29, 2006 Through November 30, 2006**

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2006 Taxes for the period April 29, 2006 through November 30, 2006, for the former Marshall County Sheriff. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

#### **Financial Condition:**

The former Sheriff collected taxes of \$12,839,425 for the districts for 2006 taxes, retaining commissions of \$497,107 to operate the Sheriff's office. The former Sheriff distributed taxes of \$12,338,034 to the districts for 2006 Taxes. Taxes of \$1,006 are due to the districts from the former Sheriff and a refund of \$797 is due to the former Sheriff from the Gilbertsville Fire District.

#### **Report Comment:**

The Former Sheriff's Office Lacked Adequate Segregation Of Duties

#### **Deposits:**

On November 30, 2006, \$1,049,588 of the former Sheriff's deposits was exposed to custodial credit risk as follows:

- Uninsured and Unsecured      \$1,049,588



## CONTENTS

PAGE

INDEPENDENT AUDITOR'S REPORT .....	1
FORMER SHERIFF'S SETTLEMENT - 2006 TAXES.....	3
NOTES TO FINANCIAL STATEMENT .....	4
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS .....	9
COMMENT AND RECOMMENDATION .....	13





**CRIT LUALLEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

To the People of Kentucky

Honorable Ernie Fletcher, Governor

Robert M. Burnside, Secretary

Finance and Administration Cabinet

Honorable Mike Miller, Marshall County Judge/Executive

Honorable Terry Anderson, Former Marshall County Sheriff

Honorable Kevin Byars, Marshall County Sheriff

Members of the Marshall County Fiscal Court

Independent Auditor's Report

We have audited the former Marshall County Sheriff's Settlement - 2006 Taxes for the period April 29, 2006 through November 30, 2006. This tax settlement is the responsibility of the former Marshall County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the former Marshall County Sheriff's taxes charged, credited, and paid for the period April 29, 2006 through November 30, 2006, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated October 12, 2007 on our consideration of the former Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing,



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and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Based on the results of our audit, we present the accompanying comment and recommendation, included herein, which discusses the following report comment:

- The Former Sheriff's Office Lacked Adequate Segregation Of Duties

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen

Auditor of Public Accounts

October 12, 2007



MARSHALL COUNTY  
TERRY ANDERSON, FORMER SHERIFF  
SHERIFF'S SETTLEMENT - 2006 TAXES

For The Period April 29, 2006 Through November 30, 2006

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 1,438,884	\$ 5,290,684	\$ 4,693,833	\$ 1,788,127
Tangible Personal Property	156,203	732,350	389,412	1,338,619
Increases Through Exonerations	947	3,680	1,828	740
Franchise Taxes	63,987	225,898	159,753	
Adjusted to Sheriff's Receipt	<u>23</u>	<u>1,746</u>		<u>2</u>
Gross Chargeable to Sheriff	<u>1,660,044</u>	<u>6,254,358</u>	<u>5,244,826</u>	<u>3,127,488</u>
<u>Credits</u>				
Exonerations	6,075	23,405	19,817	7,549
Discounts	25,194	95,339	79,959	53,841
Transferred To Interim Sheriff	336,057	1,257,368	1,081,532	427,895
Franchise Taxes	<u>4,748</u>	<u>11,695</u>	<u>11,817</u>	
Total Credits	<u>372,074</u>	<u>1,387,807</u>	<u>1,193,125</u>	<u>489,285</u>
Taxes Collected	1,287,970	4,866,551	4,051,701	2,638,203
Less: Commissions *	<u>55,026</u>	<u>183,809</u>	<u>145,861</u>	<u>112,411</u>
Taxes Due	1,232,944	4,682,742	3,905,840	2,525,792
Taxes Paid	1,232,502	4,675,880	3,904,420	2,525,232
Refunds (Current and Prior Year)	<u>442</u>	<u>1,653</u>	<u>1,420</u>	<u>560</u>
Due District or (Refunds Due Sheriff) as of Completion of Fieldwork	<u>\$ 0</u>	<u>\$ 209</u>	<u>\$ 0</u>	<u>\$ 0</u>

\* Commissions:

10% on	\$ 10,000
4.25% on	\$ 8,075,986
3.6% on	\$ 4,051,701
1% on	\$ 701,738

\*\* Special Taxing Districts:

Refuse District	\$ 1,006
Gilbertsville Fire District	<u>(797)</u>

Due District or  
(Refund Due Sheriff)

\$ 209

The accompanying notes are an integral part of this financial statement.

MARSHALL COUNTY  
NOTES TO FINANCIAL STATEMENT

November 30, 2006

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The former Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

MARSHALL COUNTY  
NOTES TO FINANCIAL STATEMENT  
November 30, 2006  
(Continued)

Note 2. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The former Sheriff did not have a deposit policy for custodial credit risk but rather followed the requirements of KRS 41.240(4). On November 30, 2006, \$1,049,588 of the former Sheriff's deposits were exposed to custodial credit risk as follows:

- Uninsured and Unsecured \$1,049,588

Note 3. Tax Collection Period

The real and personal property tax assessments were levied as of January 1, 2006. Property taxes were billed to finance governmental services for the year ended June 30, 2007. Liens are effective when the tax bills become delinquent. The collection period for these assessments was October 26, 2006 through November 30, 2006.

Note 4. Interest Income

The former Marshall County Sheriff earned \$2,670 as interest income on 2006 taxes. The former Sheriff was in substantial compliance with his statutory responsibility regarding interest.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL  
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS





**CRIT LUALLEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

To Honorable Mike Miller, Marshall County Judge/Executive  
Honorable Terry Anderson, Former Marshall County Sheriff  
Honorable Kevin Byars, Marshall County Sheriff  
Members of the Marshall County Fiscal Court

Report On Internal Control Over Financial Reporting And On  
Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards

We have audited the former Marshall County Sheriff's Settlement - 2006 Taxes for the period April 29, 2006 through November 30, 2006, and have issued our report thereon dated October 12, 2007. The Sheriff prepares his financial statement in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the former Marshall County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide an opinion on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. The following reportable condition is described in the accompanying comment and recommendation.

- The Former Sheriff's Office Lacked Adequate Segregation Of Duties

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable condition described above a material weakness.



Report On Internal Control Over Financial Reporting And  
On Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards  
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the former Marshall County Sheriff's Settlement - 2006 Taxes for the period April 29, 2006 through November 30, 2006 is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of management, and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Crit Luallen', written in a cursive style.

Crit Luallen  
Auditor of Public Accounts

October 12, 2007



COMMENT AND RECOMMENDATION



MARSHALL COUNTY  
TERRY ANDERSON, FORMER SHERIFF  
COMMENT AND RECOMMENDATION

For The Period April 29, 2006 Through November 30, 2006

INTERNAL CONTROL – MATERIAL WEAKNESS:

The Former Sheriff's Office Lacked Adequate Segregation Of Duties

The former Sheriff's office lacked adequate segregation of duties. Due to the entity's diversity of official operations, small size, and budget restrictions, the former official had limited options for establishing adequate segregation of duties. The following compensating controls could have been implemented to offset this internal control weakness:

- The former Sheriff should have periodically compared a daily bank deposit to the daily collection report and daily cash sheet. Any differences should have been reconciled. The former Sheriff could have documented this by initialing the bank deposit slip, daily collection report, and daily cash sheet.
- The former Sheriff should've compared the tax settlement to monthly reports and bank records for accuracy. Any differences should have been reconciled. The former Sheriff could have documented this by initialing the tax settlement.
- The former Sheriff should have periodically compared tax payments to monthly reports. The former Sheriff could have documented this by initialing the monthly report.
- The former Sheriff should have periodically compared the bank reconciliation to the balance in the checkbook. Any differences should have been reconciled. The former Sheriff could have documented this by initialing the bank reconciliation and the balance in the checkbook.

*Former Sheriff's Response: No Response.*

